SUPREME COURT, U. S.

Supreme Court, U.
FILED
DEC 26 197
MICHAEL RODAK, JR.,

IN THE

Supreme Court of the United States

OCTOBER TERM, 1973

No. 73- 1001

SHELL OIL COMPANY,
Petitioner,

v.

FRANK MARINELLO, d/b/a GARDEN SHELL STATION,
Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE SUPREME COURT OF NEW JERSEY

WILLIAM SIMON
JOHN BODNER, JR.
MICHAEL W. GRANEY
MICHAEL M. LEVY
HOWREY, SIMON, BAKER & MURCHISON
1730 Pennsylvania Avenue, N.W.
Washington, D. C. 20006

ANDREW S. POLITO
MICHAEL D. LOPRETE
MATTSON, MADDEN, POLITO & LOPRETE
Gateway I at Penn Station
Newark, New Jersey 01702

Attorneys for Petitioner

December 24, 1973.

WILSON - EPES PRINTING CO., INC. - RE 7-6002 - WASHINGTON, D. C. 20001

TABLE OF CONTENTS

	Page
OPINIONS BELOW	1
JURISDICTION	2
QUESTIONS PRESENTED	2
CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED	3
STATEMENT OF THE CASE	6
New Jersey Franchise Practices Act	6
The Shell-Marinello Agreements	7
REASONS FOR GRANTING THE WRIT	11
POINT I: THE DECISION BELOW CONSTITUTES STATE REGULATION IN AN AREA CONSTITUTIONALLY PREEMPTED BY CONGRESS AND IS IN CONFLICT WITH RIGHTS ESTABLISHED AND PROTECTED BY FEDERAL TRADEMARK LAW	13
POINT II: THE DECISION BELOW IMPAIRS VALUABLE CONTRACT RIGHTS IN VIOLATION OF THE CONTRACT CLAUSE OF THE FEDERAL CONSTITUTION	17
POINT III: THE DECISION BELOW IS REPUGNANT TO OTHER PROVISIONS OF THE FEDERAL CONSTITUTION	20
CONCLUSION	24
APPENDIX	

TABLE OF AUTHORITIES

Cases:	Page
A. Smith Bowman Distillery, Inc. v. Schenley Distillers, Inc., 198 F.Supp. 822 (D. Del. 1961)	14
Bibb v. Navajo Freight Lines, Inc., 359 U.S. 520 (1959)	22
Blackburn v. Alabama, 354 U.S. 393 (1957)	23
Burger King of Florida, Inc. v. Hoots, 403 F.2d 904 (7th Cir. 1968)	17
Columbia Ry., Gas & Electric Co. v. South Carolina, 261 U.S. 236 (1923)	20
Consumers Oil Corp. v. Phillips Petroleum Co., App. No. 73-1597 (3d Cir., Nov. 12, 1973)	13, 22, 23
Cross Lake Shooting and Fishing Club v. Louisiana, 224 U.S. 632 (1912)	20
E. F. Prichard Co. v. Consumers Brewing Co., 136 F.2d 512 (6th Cir. 1943), *cert. denied*, 321 U.S. 763 (1944)	15
Fornaris v. Ridge Tool Co., 423 F.2d 563 (1st Cir.), *rev'd on other grounds*, 400 U.S. 41 (1970)	18, 19
Franklin National Bank v. New York, 347 U.S. 373 (1954)	16
Gibbons v. Ogden, 9 Wheat. 1 (1824)	14
Globe Liquor Co. v. Four Roses Distillers Co., 281 A.2d 19 (Del. Sup. Ct.), *cert. denied*, 404 U.S. 873 (1971)	19
Goldblatt v. Hempstead, 369 U.S. 590 (1962)	22
Long Sault Development Co. v. Call, 242 U.S. 272 (1916)	20
McCulloch v. Maryland, 4 Wheat. 316 (1819)	14
Miller-Becker Co. v. P. Ballantine & Sons, Inc., 9 N.J. Super. 78 (App. Div. 1950)	17
Mister Donut of America, Inc. v. Mr. Donut, Inc., 418 F.2d 838 (9th Cir. 1969)	14
Pacific Supply Coop. v. Farmers Union Central Exch., Inc., 318 F.2d 894 (9th Cir. 1963), *cert. denied*, 375 U.S. 965 (1964)	15, 16
Pennslyvania v. Nelson, 350 U.S. 497 (1956)	14

TABLE OF AUTHORITIES—Continued

	Page
Pennsylvaia v. West Virginia, 262 U.S. 563 (1923)	22
Pennsylvania Coal Co. v. Mahon, 260 U.S. 393 (1922)	22
Phoenix Hardware Co. v. Paragon Paint & Varnish Co., 122 N.J. Eq. 140 (E. & A. 1937)	17
South Carolina State Highway Dept. v. Barnwell Bros., 303 U.S. 177 (1938)	22
Southern Pacific Co. v. Arizona, 325 U.S. 761 (1945)	22
Superior Motors, Inc. v. Winnebago Industries, Inc., 359 F.Supp. 773 (D.S.C. 1973)	20
Warner Lambert Co. v. Superior Court of Puerto Rico, No. 0-72-106 (May 9, 1973)	19

United States Constitution:

Article I, Section 8, Clause 3	3, 13, 14
Article I, Section 10	3, 13, 19, 20
Article VI, Clause 2	3, 12, 14, 15
Amendment V	3, 13
Amendment XIV, Section 1	3, 13

Statutes:

Dealer's Contract Law of Puerto Rico (Act No. 75)	
10 L.P.R.A. §§ 278 *et seq.*	18, 19
Delaware Franchise Security Law	
6 Del.C. §§ 2551 *et seq.*	19
Judiciary and Judicial Procedure	
28 U.S.C. § 1257(3)	2

TABLE OF AUTHORITIES—Continued

Page

Lanham Trade-Mark Act

15 U.S.C. §§ 1051 *et seq.* 2, 4-5, 8, 12, 13, 14, 15, 16-17

New Jersey Franchise Practices Act

N.J.S.A. 56:10-1 *et seq.* 2, 5-6, 7, 9, 11, 12, 13, 17, 20-21, 22, 23

Bill:

New Jersey Assembly Bill 2063 (1971) 6-7

Secondary Authorities:

17 AM. JUR. 2d *Contracts* §§ 495, 496 (1964).... 17

Cahill, *Governor's Veto Message,* Assembly Bill No. 2063, Dec. 2, 1971 6-7

GORDON'S MODERN ANNOTATED FORMS OF AGREEMENT (rev. 1970) 8

Hale, *Unconstitutional Conditions and Constitutional Rights,* 35 COL. L. REV. 21 (1935) 22

Note, *Unconstitutional Conditions,* 73 HARV. L. REV. 1595 (1960) 22

IN THE

Supreme Court of the United States

OCTOBER TERM, 1973

No. 73-

SHELL OIL COMPANY,
Petitioner,

v.

FRANK MARINELLO, d/b/a GARDEN SHELL STATION,
Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE SUPREME COURT OF NEW JERSEY

Petitioner Shell Oil Company respectfully prays that a writ of certiorari issue to review the judgment and opinion of the Supreme Court of New Jersey entered in this proceeding on July 11, 1973, or, in the alternative, that this proceeding be remanded to the Supreme Court of New Jersey for further consideration.

OPINIONS BELOW

The opinion of the Supreme Court of New Jersey (A-1 to A-10) is reported at 63 N.J. 402. The opinion of the Superior Court of New Jersey (A-12 to A-47) is reported at 120 N.J. Super. 357.

JURISDICTION

The judgment of the Supreme Court of New Jersey was entered on July 11, 1973, and its further order denying rehearing (A-11) was entered on August 30, 1973. The time for filing this petition for a writ of certiorari was extended to and including December 24, 1973 by order of Mr. Justice Brennan dated November 19, 1973. This Court's jurisdiction is invoked under 28 U.S.C. § 1257 (3).

QUESTIONS PRESENTED

The basic question presented is whether the state court decision below contravenes paramount provisions of the Federal Constitution and statutory law. This question in turn raises three subsidiary questions:

(1) Whether the Lanham Trade-Mark Act (15 U.S.C. §§ 1051 *et seq.*), which creates substantive federal rights in trademark owners to the exclusive use in commerce of registered trademarks and which was enacted specifically "to protect registered marks used in such commerce from interference by State, or territorial legislation," overrides state law creating independent rights in third parties to the use of registered trademarks?

(2) Whether the state court below unconstitutionally impaired valuable contract rights by retroactively applying the "good cause" termination requirement of the New Jersey Franchise Practices Act to preexisting agreements between Shell and Marinello?

(3) Whether the holding of the state court below (*i.e.*, that a franchisor cannot terminate real estate and supply agreements except for good cause) violated the requirements of due process and placed unconstitutional conditions and burdens upon sellers

of trademarked products engaged in interstate commerce in New Jersey?

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

Constitution of the United States:

Article I, Section 8, Clause 3.

"The Congress shall have Power . . . [to] regulate Commerce with foreign Nations, and among the several States, and with the Indian Tribes . . . ."

Article I, Section 10.

"No State shall . . . pass any . . . Law impairing the Obligation of Contracts . . . ."

Article VI, Clause 2.

"This Constitution, and the Laws of the United States which shall be made in Pursuance thereof . . . shall be the supreme Law of the Land . . . any Thing in the Constitution or Laws of any State to the Contrary notwithstanding."

Amendment V.

"No person shall . . . be deprived of life, liberty, or property, without due process of law; nor shall private property be taken for public use, without just compensation."

Amendment XIV, Section 1.

"[N]or shall any State deprive any person of life, liberty, or property, without due process of law . . . ."

Statutes:

Lanham Trade-Mark Act, 15 U.S.C. §§ 1051 et seq.:

15 U.S.C. § 1055.

"Where a registered mark or a mark sought to be registered is or may be used legitimately by related companies, such use shall inure to the benefit of the registrant or applicant for registration, and such use shall not affect the validity of such mark or of its registration, provided such mark is not used in such manner as to deceive the public."

15 U.S.C. § 1064(a).

"A verified petition to cancel a registration of a mark, stating the grounds relied upon, may, upon payment of the prescribed fee, be filed by any person who believes that he is or will be damaged by the registration of a mark on the principal register established by this chapter, or under the Act of March 3, 1881, or the Act of February 20, 1905 within five years from the date of the registration of the mark under this chapter . . . ."

15 U.S.C. § 1065.

"Except on a ground for which application to cancel may be filed at any time under subsections (c) and (e) of section 1064 of this title, and except to the extent, if any, to which the use of a mark registered on the principal register infringes a valid right acquired under the law of any State or Territory by use of a mark or trade name continuing from a date prior to the date of the publication under this chapter of such registered mark, the right of the registrant to use such registered mark in commerce for the goods or services on or in connection with which such registered mark has been in continuous use for five consecutive years subsequent to the date of such registration and is still in use in commerce, shall be incontestable . . . ."

15 U.S.C. § 1127.

"In the construction of this chapter, unless the contrary is plainly apparent from the context—

. . . .

"The word 'commerce' means all commerce which may lawfully be regulated by Congress.

. . . .

"The term 'related company' means any person who legitimately controls or is controlled by the registrant or applicant for registration in respect to the nature and quality of the goods or services in connection with which the mark is used.

. . . .

"The intent of this chapter is to regulate commerce within the control of Congress by making actionable the deceptive and misleading use of marks in such commerce; to protect registered marks used in such commerce from interference by State, or territorial legislation . . . ."

New Jersey Franchise Practices Act, N.J.S.A. 56:10-1 et seq.:

N.J.S.A. 56:10-3(a).

" 'Franchise' means a written arrangement for a definite or indefinite period, in which a person grants to another person a license to use a trade name, trade mark, service mark, or related characteristics, and in which there is a community of interest in the marketing of goods or services at wholesale, retail, by lease, agreement, or otherwise."

N.J.S.A. 56:10-5.

"It shall be a violation of this act for a franchisor to terminate, cancel or fail to renew a franchise without good cause. For the purposes of this act, good cause for terminating, canceling, or failing to

renew a franchise shall be limited to failure by the franchisee to substantially comply with those requirements imposed upon him by the franchise."

N.J.S.A. 56:10-8.

"This act shall not apply to a franchise granted prior to the effective date of this act, provided, however, that a renewal of a franchise or an amendment to an existing franchise shall not be excluded from the application of this act."

STATEMENT OF THE CASE

New Jersey Franchise Practices Act. In 1971, the New Jersey Legislature passed Assembly Bill 2063, which proposed for the first time to regulate in New Jersey the conduct of parties to franchise agreements including the conditions of termination. The Bill defined a "franchise" as any agreement whereby "a person grants to another person a license to use a trade name, trade mark, service mark, or related characteristics . . . in the marketing of goods or services." The Bill further provided in Section 9 that the Act shall not apply to a franchise for a "definite period of time" granted prior to the effective date of the Act. Thus, from the outset, both houses of the State Legislature intended that the new franchise legislation should apply only prospectively and not retroactively to franchise agreements for a fixed term.

After the passage of Assembly Bill 2063, the Governor carefully reviewed the new legislation and returned the Bill, with his specific comments and objections, to the Legislature for reconsideration. In his conditional veto message, the Governor pointed out that this was a "far-reaching bill" which made "substantial changes" in the preexisting law of New Jersey (Veto Message, December 2, 1971, at 1). In this connection, the Governor referred first to the provision of the franchise law prohibiting

the termination of franchise agreements except for "good cause." As is evident from the Governor's message, the "good cause" termination requirement was regarded as a key provision of the legislation. In reviewing this provision, the Governor noted certain ambiguities in it and recommended "that this language be clarified to positively state that it shall be a violation of the act for a franchisor to terminate, cancel or fail to renew a franchise without good cause" (*Id.* at 3).

On the question of the retroactive application of the new law, the Governor stated that, while the Bill provided that the law shall not apply to a franchise for a "definite period of time" which was granted prior to its effective date, this language was ambiguous in that it "infers that the act would apply to franchises for an 'indefinite period of time' granted prior to the effective date" (*Id.* at 4). The Governor then added:

> "If such were the case, it would have the effect of impairing the obligation of existing contracts. This is prohibited by both the United States and New Jersey Constitution." (*Id.*)

Accordingly, the Governor recommended "that this language be amended so that the act shall not apply to *any* existing franchises" (*Id.*; emphasis added).

The Legislature, on reconsideration, adopted the Governor's recommendations and specifically amended the Act to provide that its prohibitions "shall not apply to a franchise granted prior to the effective date" of the Act (N.J.S.A. 56:10-8). The Bill was signed into law by the Governor and became effective on December 21, 1971.

The Shell-Marinello Agreements. In 1969, two years before the Franchise Practices Act became effective, Shell Oil Company ("Shell") renewed its sublease of a service station in Fort Lee, New Jersey, to Frank Marinello

("Marinello") by entering into a three-year written agreement ending May 31, 1972 (N.J. App. 82a-88a).[1] At the same time, the parties entered into a written dealer product agreement for the same period which, among other things, authorized Marinello to use Shell's trademarks registered under the Lanham Act "to identify and advertise" the fact that he had Shell's products for resale (N.J. App. 93a-97a). The dealer product agreement did not obligate Marinello to purchase any product from Shell nor did it prohibit him from purchasing and reselling competing products (*Id.*).

The lease and dealer product agreement with Marinello were executed on standard contract forms used by Shell in its business throughout the United States. The termination provisions in the two agreements are in all material respects identical to those found in form books and traditionally used in every type of business contract including leases of realty and franchises (*see, e.g.*, GORDON'S MODERN ANNOTATED FORMS OF AGREEMENT at 731, 980, 982, 1017 (rev. 1970)).

At the expiration date of these two agreements, Shell elected not to renew or enter into new agreements with Marinello (N.J. App. 89a). Marinello's own business records showed that he was not a successful dealer; in fact, he had been losing money at the service station for many months before the termination date of the lease and the dealer product agreement (see record citations, Shell's brief below at 7). Shell offered to lease Marinello another service station more in keeping with his capabilities, but he rejected this offer, refused to surrender the premises, and continued to use Shell's trademark after the termination of the lease and dealer agreement (*Id.* at 17-18).

Marinello brought suit against Shell in the Superior Court of New Jersey, alleging, among other things, that

[1] "N.J. App." refers to Shell's printed appendix filed with the New Jersey Supreme Court.

the nonrenewal of the lease and dealer product agreement violated the New Jersey Franchise Practices Act (N.J.S.A. 56:10-1 *et seq.*). The complaint prayed for declaratory and other relief including reformation of the two agreements to provide for a lifelong term (N.J. App. 1a-4a). The case was then consolidated with a dispossess proceeding which had been brought by Shell (A-19). Deciding both cases, the Superior Court entered judgment for Marinello on all claims and reformed both the lease and the dealer product agreement to provide:

> "Shell shall not refuse to renew this agreement so long as Frank Marinello substantially performs his obligations to Shell Oil Company under the terms of the lease and the dealer agreement" (N.J. App. 77a).

Shell appealed to the Appellate Division of the Superior Court, but before briefs were filed the Supreme Court of New Jersey *sua sponte* certified the case to its own docket (N.J. App. 79a-81a). In a brief opinion, the Supreme Court affirmed the result reached by the Superior Court, but in doing so changed the rationale of the decision (A-1-10).

In its opinion, the Supreme Court stated that it was "unnecessary" to order specific reformation of the lease and dealer product agreement, since the same end result could be reached "from consideration of the instruments themselves, the relationship between Shell and Marinello created thereby, and the public policy of this State affecting such relationship" (A-4).

The Supreme Court predicated its decision on a holding that the two agreements (the 3-year lease and the 3-year dealer product agreement) between Shell and Marinello constituted a "franchise" arrangement and, therefore, that the "public policy" of New Jersey required

> "that there be read into the existing lease and dealer agreement, and all future lease and dealer agree-

> ments which may be negotiated in good faith between the parties, the restriction that Shell not have the unilateral right to terminate, cancel or fail to renew the franchise, including the lease, in absence of a showing that Marinello has failed to substantially perform his obligations under the lease and dealer agreement, *i.e.*, for good cause . . . ." (A-9)

In holding that Shell had no legal right to terminate its sublease or product agreement except for good cause, the Supreme Court stated that the Franchise Practices Act did not "directly control" the Shell-Marinello agreements since they antedated the effective date of the statute, but it ruled that "the provisions of the Act merely put into statutory form the extant public policy of this State" (A-8).

In basing its decision on what the Court perceived to be "the extant public policy" of New Jersey, the Supreme Court not only granted Marinello the right to sublease the service station property and to sell Shell's trademarked products for an "indefinite period," but it indicated it was leaving undecided the question of whether these rights were so personal that they would "survive Marinello's disability or death" (A-9).

In its opinion, the Supreme Court did not mention or discuss any of the federal or state constitutional issues raised by Shell on the appeal. Shell petitioned the Supreme Court of New Jersey for a rehearing, pointing out in particular that by changing the rationale of the case and granting Marinello a lifetime (and perhaps perpetual) right to use Shell's federal trademarks, the decision also conflicted with paramount provisions of the United States Constitution and the federal trademark law. The Supreme Court, however, denied the petition, without comment, on August 30, 1973 (A-11).

REASONS FOR GRANTING THE WRIT

As the basis for its unprecedented holding that an oil supplier's service station lease and product agreement together constituted a franchise terminable only for good cause, the state court below relied upon its own statement of the general public policy of the State of New Jersey. In determining what constituted "the extant public policy" of New Jersey, the court below considered the general notion of fairness involved where contracting parties are in an unequal bargaining position, but then it looked to the recently enacted Franchise Practices Act. According to the state court:

> "[T]he Act reflects the legislative concern over long-standing abuses in the franchise relationship, particularly provisions giving the franchisor the right to terminate, cancel or fail to renew the franchise. *To that extent the provisions of the Act merely put into statutory form the extant public policy of this State.*" (A-8; emphasis added)

In basing its decision on its own conception of "the extant public policy" of the State, the court below overlooked the significant legislative history of the Franchise Practices Act and the public pronouncements of the Governor which establish that in enacting this new legislation regulating franchising, the two political branches of the State government made an explicit determination that the requirements of the Act (including the ban on terminations without good cause) should not apply to any franchise agreements entered into prior to the effective date of the Act.

Both the Legislature and the Governor of New Jersey, in considering the Franchise Practices Bill, recognized that this new legislation would bring about "substantial changes" in the established law and that it would be unfair to apply its provisions to any franchise agreements

entered into prior to the effective date of the statute. Thus, the Governor wanted the legislation changed specifically to limit its application to future franchise agreements in the belief that any retroactive application of the statute would constitute an unconstitutional impairment of the obligation of existing franchise contracts. On the recommendation of the Governor, the Legislature amended the originally passed Bill so that it contained an absolute bar against the retroactive application of the legislation to all preexisting franchise agreements.

Ignoring this specific State policy as declared by the Governor and Legislature of New Jersey and embodied in the Franchise Practices Act, the state court below applied the "good cause" termination requirements of the Act to the preexisting lease and dealer product agreements between the parties to this action. In doing so, the state court not only misconceived the specific public policy of the State, but it announced a novel principle of law violative of basic provisions of the Federal Constitution.

Review of the state action below is warranted for three basic reasons:

First, the decision below, by integrating the service station lease and the product supply agreement between Shell and dealer Marinello and denominating the business relationship between them as a "franchise," directly raises for the first time the question of whether the State law affecting such a franchise conflicts with the paramount federal trademark rights of Shell. In Point I, we show that Congress, in passing the Lanham Trade-Mark Act of 1946, expressly declared, in accordance with the Supremacy Clause of the United States Constitution, that federal law preempts the field of trademark regulation as against any state regulation.

Second, despite the feeble disclaimer to the contrary, the state court below in substance and effect applied the

"good cause" termination requirement of the Franchise Practices Act to agreements antedating the passage of that statute. In Point II, we show that such retroactive application violates the Impairment of Contract Clause of the Federal Constitution.

Finally, state law imposing a "good cause" requirement for the termination of business agreements between firms engaged in interstate commerce presents other federal constitutional infirmities. As discussed in Point III, the United States Court of Appeals for the Third Circuit, in an opinion issued last month, concluded that the "good cause" termination provision of New Jersey law raised "substantial" federal constitutional questions under the Commerce and Due Process clauses as well as under the Unconstitutional Conditions doctrine. *Consumers Oil Corp.* v. *Phillips Petroleum Co.*, App. No. 73-1597 (3d Cir., Nov. 12, 1973).

POINT I.

THE DECISION BELOW CONSTITUTES STATE REGULATION IN AN AREA CONSTITUTIONALLY PREEMPTED BY CONGRESS AND IS IN CONFLICT WITH RIGHTS ESTABLISHED AND PROTECTED BY FEDERAL TRADEMARK LAW.

In 1946, Congress passed the Lanham Act (15 U.S.C. §§ 1051 *et seq.*) to regulate fully the registration and use of trademarks in interstate and foreign commerce. In the Act, Congress expressed its intention "to protect registered marks used in such commerce from interference by State, or territorial legislation" (15 U.S.C. § 1127). Congress also stated its intention to exhaust its Constitutional powers in the regulation of trademarks when it defined "commerce" for the purposes of the Act as meaning "all commerce which may lawfully be regulated by Congress" (*Id.*).

Wherever Congress is granted atuhority under the Constitution to legislate in an area and it has exercised its power to the fullest in that area, the states have no authority to legislate on the same subject matter. *McCulloch* v. *Maryland*, 4 Wheat. 316 (1819); *Gibbons* v. *Ogden*, 9 Wheat. 1 (1824); *Pennsylvania* v. *Nelson*, 350 U.S. 497 (1956). In this instance, where Congress has manifested its clear intention to use its complete power under the Commerce Clause to regulate trademarks and has expressly prohibited any interference by state action within that field, the states are thereby preempted from the field under the Supremacy Clause of the United States Constitution.

The preemption of the trademark field by Congress has been recognized most recently in *Mister Donut of America, Inc.* v. *Mr. Donut, Inc.*, 418 F.2d 838 (9th Cir. 1969). In that case, the plaintiff tried to defeat a defense to an infringement action provided under Section 33(b)(5) of the Lanham Act (15 U.S.C. § 1115(b)(5)), interjecting California law to claim trademark rights broader than those conferred by Congress. The Court of Appeals held:

> "What the effect of this California statutory provision might be if the Lanham Act had not been passed by Congress, we need not decide. *The Lanham Act has pre-empted the field of trademark law and controls.* It follows that the defense provided in Sec. 1115(b)(5) of the Act cannot be voided by state statute." (*Id.* at 844; emphasis added)

Cf. A. Smith Bowman Distillery, Inc. v. *Schenley Distillers, Inc.*, 198 F.Supp. 822, 825 (D. Del. 1961) (". . . Congress here intended to regulate all it constitutionally could").

The decision below, by interfering with Shell's trademark rights under its dealer agreement with Marinello, constitutes state action in an area which has been spe-

cifically preempted by Congress. Since Congress has manifested its intention to occupy the field of trademark regulation, no state court is permitted to regulate trademark owners' rights or to enlarge the trademark rights of a licensee.

Apart from federal preemption, the state court holding below must give way under the Supremacy Clause because it directly conflicts with rights established and protected under federal trademark law.

In enacting the Lanham Act, Congress did not merely adopt or codify existing common law but created "new substantive rights." *Pacific Supply Coop.* v. *Farmers Union Central Exch., Inc.*, 318 F.2d 894, 905-06 (9th Cir. 1963), *cert. denied*, 375 U.S. 965 (1964). A trademark owner who registers his trademark under the Lanham Act is given the exclusive right to the use of his trademark as well as the right to restrain all others from using it without his permission (15 U.S.C. §§ 1114 (1), 1115(b)(7)). In consequence, a state is without authority to create trademark rights in a third party in derogation of the rights conferred by the Lanham Act. Yet that is precisely what the court below did when it granted dealer Marinello a lifetime (and perhaps perpetual) right to use Shell's trademarks.

It is also settled under federal trademark law, both before and after the passage of the Lanham Act, that a trademark registrant can license the use of his trademark for a definite period of time and the licensee's right to continue to use the trademark ends upon the termination or revocation of the license in accordance with its written terms. *E. F. Prichard Co.* v. *Consumers Brewing Co.*, 136 F.2d 512 (6th Cir. 1943), *cert. denied*, 321 U.S. 763 (1944); *cf. Pacific Supply Coop.* v. *Farmers Union Central Exch. Inc.*, *supra*, 318 F.2d at 909.

Contrary to the holding below, a licensee of a registered trademark is entitled to no greater rights than those conferred in the licensing agreement. Although courts have recognized that upon termination of a licensing agreement a licensee may incur financial loss, this fact confers no equitable rights in the licensee. Considering this point, the Court of Appeals for the Ninth Circuit recently stated:

> "Such a termination with its resultant loss of business and profit does not create equitable rights in the licensee upon which recovery for such losses can be claimed or established; nor does it create any form of estoppel against the original licensor. . . ." *Pacific Supply Coop.* v. *Farmers Union Central Exch., Inc., supra,* 318 F.2d at 909.

In this case, Shell's rights created and protected by the Lanham Act are defeated and obstructed by the decision below, for Shell can no longer grant a license of its trademarks for a stated term without being subject to a state action for damages and/or injunctive relief. No state court can interfere with such federally created rights, even if done in the name of state public policy. This Court, in *Franklin National Bank* v. *New York*, 347 U.S. 373 (1954), stated the principles applicable to conflicts between state and federal law as follows:

> "There appears to be a clear conflict between the law of New York and the law of the Federal Government. We cannot resolve conflicts of authority by our judgment as to the wisdom or need of either conflicting policy. The compact between the states creating the Federal Government resolves them as a matter of supremacy. However wise or needful New York's policy, a matter as to which we express no judgment, it must give way to the contrary federal policy." *Id.* at 378-79 (footnote omitted).

These principles were discussed in a recent case involving a conflict between state law and the Lanham

Act. In *Burger King of Florida, Inc.* v. *Hoots*, 403 F.2d 904 (7th Cir. 1968), the Court of Appeals pointed out that even under the federal trademark statutes antedating the Lanham Act, it was held that

> "[T]he policy of the Acts, to provide protection of federally registered marks used in interstate commerce, 'may not be defeated or obstructed by State law' and that if state law conflicts with the policy it 'must yield to the superior federal law.' . . . [F]ederal-registration rendered all questions of use and protection in interstate commerce questions of federal law, not state law." *Id.* at 907.

In summary, the state court decision below regulates the federally created trademark rights of Shell and, therefore, must yield to the superior federal law which preempts this field and overrides inconsistent and conflicting state action.

POINT II.

THE DECISION BELOW IMPAIRS VALUABLE CONTRACT RIGHTS IN VIOLATION OF THE CONTRACT CLAUSE OF THE FEDERAL CONSTITUTION.

When the Franchise Practices Act was enacted in 1971, both the Legislature and the Governor recognized that the Act brought about major changes in established law and that it would be unfair to apply its provisions to franchise agreements entered into prior to the effective date of the statute.[2] In particular, the Governor in his

---

[2] New Jersey, like other jurisdictions, has always adhered to the well settled principles of contract law that agreed-upon provisions for the termination of a contract upon notice will be enforced and that good cause is not required for termination. Miller-Becker Co. v. P. Ballantine & Sons, Inc., 9 N.J. Super. 78 (App. Div. 1950); Phoenix Hardware Co. v. Paragon Paint & Varnish Co., 122 N.J. Eq. 140 (E. & A. 1937). *See generally* 17 AM. JUR.2d *Contracts* §§ 495, 496 (1964).

conditional veto message pointed out that the retroactive application of the statute would impair the obligation of existing contracts in violation of both the federal and state constitutions. The Act was accordingly revised to make it inapplicable to any pre-enactment franchise agreements.

The concern expressed by the Governor and the Legislature that the statute should not be applied retroactively was well founded. In the first case to reach the reviewing courts on this issue, the Court of Appeals for the First Circuit in 1970 struck down a similar statute in Puerto Rico on the ground that it was not constitutionally permissible to retroactively alter pre-enactment agreements. *Fornaris* v. *Ridge Tool Co.*, 423 F.2d 563 (1st Cir.), *rev'd on other grounds*, 400 U.S. 41 (1970). In that case, a dealer who had been terminated in accordance with the provisions of a franchise agreement which provided for termination without cause brought an action against his supplier under the Puerto Rican Dealer's Contract Law, which prohibited dealer terminations without "just cause." Since the statute by its terms applied retroactively, the Court then considered whether the application of the statute would substantially impair or change pre-enactment contract rights. In finding that it would, the Court stated:

> "No amount of research by parties or amici has discovered a case suggesting that to convert a contractual relationship terminable by either party without cause into one which, short of breach by the other party, can be terminated by one of the parties only by making substantial payments and without protection for its economic interests, is not a change of great magnitude." *Id.* at 567-68 (footnote omitted).

On review, this Court, in a *per curiam* opinion, reversed and remanded the proceeding to give the Supreme Court of Puerto Rico an opportunity to rule authorita-

tively on the statute since it was "conceivable that 'just cause' might be judicially confined to a more narrow ambit which would avoid all constitutional questions." *Fornaris* v. *Ridge Tool Co.*, 400 U.S. 41, 44 (1970).

Subsequently, in another case, the Supreme Court of Puerto Rico did consider the effect of the application of the Dealer's Contract Law to pre-enactment agreements, and in so doing, it held that the statute impaired preexisting contractual rights in violation of the Contract Clause of the Puerto Rican Constitution, which is virtually the same as the Contract Clause of the Federal Constitution. *Warner Lambert Co.* v. *Superior Court of Puerto Rico*, No. 0-72-106 (May 9, 1973). Relying mainly on decisions of this Court, the Puerto Rican Supreme Court concluded that the statutory imposition of the "just cause" termination requirement on preexisting contractual arrangements substantially modified contractual rights and "destroyed" the "fundamental right" of a party "to terminate the contract unilaterally" (Slip Op. at 22-24).

Since then, two similar state statutes have been reviewed and held to be unconstitutional as applied to pre-enactment agreements. In *Globe Liquor Co.* v. *Four Roses Distillers Co.*, 281 A.2d 19 (Del. Sup. Ct.), *cert. denied*, 404 U.S. 873 (1971), the Delaware Supreme Court held that the imposition by the Delaware Franchise Security Law of a termination requirement similar to the "good cause" requirement was "not a minor change or infringement permissible under the exercise of the police power. It is therefore proscribed by the Contract Clause of the Federal Constitution" (*Id.* at 21). And earlier this year, a United States District Court held that a South Carolina statute imposing a termination requirement of "due cause" for franchise contracts existing before the statute's enactment was unconstitutional under the Contract Clause of both the State and Federal Con-

stitutions. *Superior Motors, Inc.* v. *Winnebago Industries, Inc.*, 359 F.Supp. 773 (D.S.C. 1973). As the Court stated:

> "[I]t is manifestly clear that this statute, if applied to the instant contract between the parties, would impose significant new duties and conditions and take away previously existing rights. As such, the legislation as applied to this contract would unconstitutionally impair its obligations. . . ." *Id.* at 779.

Thus, within a brief four-year span, every reviewing court which has passed on the issue has declared unconstitutional the retroactive application of "good cause" termination requirements, or their equivalents, to pre-enactment contracts. Certainly the decision below has the same constitutional infirmity.

While the New Jersey Supreme Court in its opinion below stated that it was applying New Jersey public policy rather than the provisions of the Franchise Practices Act, that assertion does not comport with what the court in fact did. And, as this Court has said, in determining whether a judicial decision applies state legislation within the meaning of the Contract Clause,[3] "this court is not limited to the mere consideration of the language of the opinion of the state court, but will consider the substance and effect of the decision, and will for itself determine what effect, if any, was given by it to the [challenged statute]." *Long Sault Development Co.* v. *Call*, 242 U.S. 272, 277 (1916).

The decision below cannot rest on state public policy. The specific public policy of New Jersey, as declared by both its Legislature and Governor, is that the rights and remedies conferred upon franchisees under the Franchise

---

[3] The Contract Clause applies only to state legislation, but that requirement is satisfied where the substance and effect of a judicial decision is to apply a state statute. Columbia Ry., Gas & Electric Co. v. South Carolina, 261 U.S. 236, 247 (1923); Cross Lake Shooting and Fishing Club v. Louisiana, 224 U.S. 632, 639 (1912).

Practices Act shall apply only to franchise agreements entered into after its effective date. In consequence, the action of the court below in applying the "good cause" termination requirement to the pre-enactment lease and dealer product agreement of Shell and Marinello is in conflict with the specific public policy of the state and represents an improper retrospective application of that provision of the Act.

That the substance and effect of the decision below was to apply retroactively the provisions of the Franchise Practices Act is evident from the opinion below. First, the court integrated the lease and dealer agreement and denominated them a "franchise" as defined in the Act (*compare* A-7-8 *with* N.J.S.A. 56:10-3(a)); granted dealer Marinello a lifetime interest in the sublease and dealer agreement and imposed the same "good cause" termination requirement [4] as contained in the Act (*compare* A-9 *with* N.J.S.A. 56:10-5); and finally approved a decree giving Marinello the same equitable relief suggested in the injunctive provisions of the Act (*compare* A-9 *with* N.J.S.A. 56:10-10).

Although urged on the appeal below, the Supreme Court of New Jersey failed to consider whether its action substantially impaired the contractual rights of Shell. This constitutional issue, we submit, should be reviewed by this Court, particularly in light of the uniform rulings of all other reviewing courts that the retroactive application of the "good cause" termination requirement unconstitutionally impairs valuable contract rights.

---

[4] The court below also defined "good cause" in precisely the same terms as found in the Act (*compare* A-9 *with* N.J.S.A. 56:10-5).

POINT III.

THE DECISION BELOW IS REPUGNANT TO OTHER PROVISIONS OF THE FEDERAL CONSTITUTION.

In *Consumers Oil Corp.* v. *Phillips Petroleum Co., supra,* Judge Hastie, writing for a unanimous court, identified three "substantial" constitutional issues raised by the New Jersey Franchise Practices Act. These issues are that the Act imposes an unreasonable burden on interstate commerce, deprives franchisors of their property without due process of law, and imposes unconstitutional conditions upon engaging in commerce in New Jersey.[5]

In that case, Consumers Oil Corp. attempted to invoke the Franchise Practices Act to restrain Phillips from terminating its supply contract without the "good cause" required by the Act. The only agreement before the Court was a contract for the supply of Phillips' gasoline, and it was in determining whether under the Act Phillips could terminate that single agreement as part of a company decision to discontinue marketing gasoline in New Jersey that the Court found these constitutional issues raised.

---

[5] In support of its ruling, the Court of Appeals relied upon the following leading constitutional decisions and authorities (Slip Op. at 6 n.2):

> "Burden on commerce: *Compare South Carolina State Highway Dept.* v. *Barnwell Bros.*, 1938, 303 U.S. 177, *with, Pennsylvania* v. *West Virginia*, 1923, 262 U.S. 563, *Southern Pacific Co.* v. *Arizona*, 1945, 325 U.S. 761, and *Bibb* v. *Navajo Freight Lines, Inc.*, 1959, 359 U.S. 520.
>
> "Deprivation of property without due process: *Compare, Pennsylvania Coal Co.* v. *Mahon*, 1922, 260 U.S. 393, *with, Goldblatt* v. *Hempstead*, 1962, 369 U.S. 590.
>
> "Unconstitutional conditions: For discussion of this doctrine and the cases in which it has been invoked, *see* Hale, *Unconstitutional Conditions and Constitutional Rights*, 1935, 35 COL. L. REV. 321; Note, *Unconstitutional Conditions*, 1960, 73 HARV. L. REV. 1595."

The Court of Appeals was quite properly concerned with the effect of the New Jersey law on interstate commerce in that it converted fixed-term marketing arrangements into arrangements terminable only for good cause. Such a drastic change in the way that most interstate marketers conduct their business directly presented not only the question of an undue burden on interstate commerce, but also the question of whether franchisors would be deprived of property without due process of law.

In two senses, the constitutional issues identified by the Court of Appeals in *Consumers Oil* are raised with even greater force in the instant case. *Consumers Oil* involved an oil company's supply agreement renewed after the enactment of the New Jersey statute, whereas this case involves two agreements entered into before the enactment of the statute. Moreover, in this case, the court below did not limit its action to converting the product supply agreement into a non-terminable agreement except for good cause, but it did the same thing with respect to the sublease between Shell and Marinello. In thus converting a 3-year real estate sublease into a lifetime agreement (and suggesting that the sublessee's interest might extend beyond his lifetime), the court below directly presented the question of whether such a change constituted a taking of property without compensation and without due process of law.

The Third Circuit in *Consumers Oil* did not decide the constitutional issues, but remanded the case with direction to withhold further action to permit the state courts to determine in the first instance whether the New Jersey Franchise Practices Act applied to Phillips' agreement. Since the court below in this case failed to consider the constitutional issues raised by Shell on its appeal and petition for rehearing, this Court may wish to remand this case to afford the State Supreme Court an opportunity to pass upon these important constitutional questions, in accordance with the procedure set forth in *Blackburn* v. *Alabama*, 354 U.S. 393 (1957).

CONCLUSION

The decision below radically alters the time-honored and accepted method of conducting interstate marketing operations in this country. It also raises fundamental constitutional questions which have not been, but should be, decided by this Court. Since none of these constitutional questions was discussed by the court below either on the appeal or the petition for rehearing, this Court may deem it advisable to remand the case to the New Jersey Supreme Court for an initial determination of these issues. In either event, this Court should grant the petition for a writ of certiorari.

Respectfully submitted,

WILLIAM SIMON
JOHN BODNER, JR.
MICHAEL W. GRANEY
MICHAEL M. LEVY
HOWREY, SIMON, BAKER & MURCHISON
1730 Pennsylvania Avenue, N.W.
Washington, D. C. 20006

ANDREW S. POLITO
MICHAEL D. LOPRETE
MATTSON, MADDEN, POLITO & LOPRETE
Gateway I at Penn Station
Newark, New Jersey 01702

Attorneys for Petitioner Shell Oil Company

December 24, 1973.